

Investment Policies Provide Steady Hand in Uncertain Times

Many not-for-profits are finding the need for a strong investment policy more pressing than ever. In the midst of erratic financial markets and far-reaching economic uncertainty, an investment policy can bring the discipline necessary to pursue sound investments and resist short-term temptations.

A number of factors favor forming an investment policy:

- Not-for-profits that employ outside money managers must give guidelines (or, better yet, directives) on how to handle the accumulated investments.
- Sophisticated donors may require a formal policy before making substantial donations, bequests, or endowments.
- Turnover on the board may result in questions or disagreements about unwritten investment philosophies.
- In the post-Enron world, regulators and members are likely to scrutinize an organization's financial policies more closely. An investment policy can help shield board members from personal liability resulting from poor investments.

While every investment policy should be tailored to the needs of the particular organization, investment policies should generally include several common components.

Objectives. Initially, an investment policy should articulate the not-for-profit's objectives for its portfolio and specify performance goals, preferably in the form of annual returns, necessary to achieve the objectives. The objectives will largely determine the types of investments the organization should hold.

In setting its performance goals, the organization will need to take into account time horizons, cash flow, capital requirements, and the purpose of specific investments.

Spending policy. To some degree, the performance goals will be dictated by the organization's spending policy — how much money it will take out of the investment fund for certain expenses. The spending policy will affect how liquid the not-for-profit's investments must be.

Appropriate investments. The policy should identify the types of investments the organization would and would not hold, bearing in mind an investment vehicle's level of risk, potential yield, and liquidity.

Additionally, a not-for-profit may wish to engage in "social investing" practices, whereby an organization refuses to invest in certain companies, countries, or industries based on ethical considerations.

Asset allocation. An investment policy should also set a range of investments, indicating the portion of a not-for-profit's assets that are to be invested in stocks, mutual funds, fixed income investments, government instruments, etc. Setting ranges, rather than pinpointing exact percentages, allows some flexibility in dealing

with market fluctuations.

Requirements of the money manager(s). The organization should explicitly state the type of reports it expects, including frequency and format. The policy can also explain how the money manager's performance will be evaluated, as well as how the manager will be supervised.

Revising the Investment Policy

A not-for-profit organization should revisit its investment policy at least annually to determine if it continues to make sense in light of the organization's objectives, goals, and needs. An elaborate, detailed analysis of the policy isn't necessary, but the organization should be comfortable with the overall policy and its individual components.

Organizations should rarely make significant changes to the policy or attempt to capitalize on the latest market trend, especially without consulting a financial professional. Stability is the cornerstone of a successful investment policy.



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